

DEPARTMENT OF THE TREASURY

Departmental Offices

Study of the Impact of Threat of Terrorism on Availability of Group Life Insurance

AGENCY: Department of the Treasury, Departmental Offices.

ACTION: Notice; Request for Comments.

SUMMARY: Recently enacted terrorism insurance legislation requires the Secretary of the Treasury (Treasury) to study, on an expedited basis, whether adequate and affordable catastrophe reinsurance for acts of terrorism is available to life insurers in the United States that issue group life insurance, and the extent to which the threat of terrorism is reducing the availability of group life insurance for consumers in the United States. To assist in this study, the Treasury is soliciting comments on the questions listed below.

DATES: Comments must be in writing and received by January 10, 2003.

ADDRESSES: Send comments by e-mail to grouplifestudy@do.treas.gov. Please include your name, affiliation, address, e-mail address, and telephone number. All submissions should be captioned "Comments on Group Life Insurance Study".

FOR FURTHER INFORMATION CONTACT: Lucy Huffman, Project Manager, Office of Microeconomic Analysis, 202-622-0198; John Worth, Acting Director, Office of Microeconomic Analysis, 202-622-2683; U.S. Treasury Department.

SUPPLEMENTARY INFORMATION:

Section 4(h) of the Terrorism Risk Insurance Act of 2002 (Public Law No. 107-297) (Act) requires the Treasury to study, on an expedited basis, whether adequate and affordable catastrophe reinsurance for acts of terrorism is available to life insurers in the United States that offer group life insurance, and the extent to which the threat of terrorism is reducing the availability of group life insurance coverage for consumers in the United States. To the extent that the Treasury determines that such coverage is not or will not be reasonably available to both such insurers and consumers, the Treasury is directed to apply, in consultation with the National Association of Insurance Commissioners, the provisions of the Act, as appropriate, to group life insurers; and provide such restrictions, limitations, or conditions with respect to any financial assistance provided that Treasury deems appropriate, based on this study.

The purpose of the Act is to establish a temporary Federal program that provides for a transparent system of shared public and private compensation for insured losses resulting from acts of terrorism, in order to protect consumers by addressing market disruptions and ensure the continued widespread availability and affordability of property and casualty insurance for terrorism risk; and to allow for a transitional period for the private

markets to stabilize, resume pricing of such insurance, and build capacity to absorb any future losses, while preserving state insurance regulation and consumer protections.

Treasury is soliciting comment in response to the following questions, including empirical data in support of such comments where appropriate and available.

I. The impact of terrorism risk on group life insurers

- 1.1 Who are the suppliers of the group life insurance in the U.S.; who are the buyers; and how are sellers and buyer brought together?
- 1.2 What is the corporate status of group life insurers? Are they generally stand-alone companies, or affiliates of other corporations? If the latter, what are the major business interests of the other corporations?
- 1.3 What characterizes group life insurance offerings? Please describe typical terms of coverage, offer and renewal procedures, and other relevant information.
- 1.4 How is group life insurance regulated in the U.S.? Are there are significant differences in group life regulation among the states and, if so, what are these differences?
- 1.5 What are the risk exposures of customers and how are they concentrated—by locality, by type of employer, other? What is the annual premium structure for these different exposures?

- 1.6 What amounts of loss exposure are typically reinsured? Please describe the structure of typical reinsurance contracts, including the period of coverage and typical renewal process.
- 1.7 What was the amount of group life insurance losses in the terrorist attack of September 11, 2001; and how was it distributed—losses to insurers versus losses to reinsurers? How was it distributed within each group?
- 1.8 What was the availability and price of reinsurance in the period before and following September 11, 2001, for group life insurance? What is it today? Please be specific by type and amount of coverage available, deductible, sublimit, renewability, and other relevant characteristics.
- 1.9 What is the current capacity of group life insurers in the U.S. to bear terrorism risk, individually and as affiliates of other companies, taking into consideration their reinsurance situation? Please provide empirical support for responses as available and appropriate.
- 1.10 Are there other sources of protection for terrorism risks in group life insurance, e.g., through capital markets? To what extent are these sources used currently? What are the issues associated with expanded use of these sources?
- 1.11 Please address and provide empirical support for whether group life insurers have reasonable access to adequate and affordable catastrophe reinsurance, and, if not, why inclusion in the Act would correct this situation. In so doing, please compare the magnitude and scope of the situation of group life insurers to the situation previous to the passage of the Act of those property and casualty insurers that are included in the Act.

II. The impact of terrorism risk on group life insurance markets

- 2.1 Please describe in detail, current group life insurance market conditions, including availability and pricing, by type and location of employers and other purchasers.
- 2.2 What is the impact of terrorism risk on group life insurance availability for employees and other consumers? Please describe in as much detail as possible which employees and other consumers have been significantly affected, including availability and pricing, by type and location of employer or other purchaser of group life coverage.
- 2.3 What is the cost and availability of alternative sources of life insurance coverage for those employees and other consumers affected by the reduced availability and affordability of group life insurance?
- 2.4 Please explain and provide empirical support concerning the extent to which the threat of terrorism is reducing reasonable availability of group life insurance coverage for employees and other consumers in the U.S., and whether it would continue to be reduced if group life insurers continue to be excluded from the Program. Please compare the magnitude and scope of the impact on consumers of not including group life insurance to the impact on consumers previous to the passage of the Act of those property and casualty insurance lines covered under the Act. Please explain how inclusion would correct this situation.

III. The Potential for Inclusion in the Federal Program

3.1 Treasury presumes that, if it would be appropriate to include group life insurance under the Act, Treasury would apply the current provisions of the Act to group life insurers. If this is not the case, please discuss and provide a detailed explanation of the changes that would need to be made to implement the Program for group life insurers. Please include discussion of any operational difficulties with applying the current provisions in the Act to group life insurers, any other characteristics of group life insurance that should be considered with respect to any financial assistance if group life insurers were included under the Act, and the benefits and costs, including administrative costs, of any proposed changes to the provisions for group life insurers.

Dated:

Mark Warshawsky

Deputy Assistant Secretary for Economic Policy

Microeconomic Analysis